

Nebraska Child Care Fiscal Analysis

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Background

In 2020, Nebraska formed an Early Childhood Governance and Financing Task Force. This Task Force, designed and strategically carried out in the context of [Nebraska's Preschool Development Grant](#), brought together a broad range of expertise from state agencies, economic development, higher education, the legal field, philanthropy, and public policy to explore a more coherent and purpose-driven systems approach to early childhood in Nebraska. One of several recommendations from this Task Force included forming two work groups to dive deeper into the topics of shared leadership and fiscal strategies. The Fiscal Strategies work group met several times throughout 2023 and supported the development of a customized child care cost model for Nebraska. This brief summarizes the work led by Prenatal to Five Fiscal Strategies (P5FS) and First Five Nebraska (FFN) of developing that cost model and shares sample results from the model.

Cost Model Development

Cost Model Advisory Work Group

The child care field across Nebraska was an instrumental partner in the development of the Nebraska Child Care Cost Model. P5FS and FFN formed a Cost Model Advisory Work Group to provide ongoing leadership and guidance in the development of the model. This work group included representatives from the Nebraska Department of Education and Nebraska Department of Health and Human Services as well as representatives of child care providers. The work group was tasked with:

1. Providing expertise related to the cost variables and assumptions in the cost model
2. Sharing insights into the reality of providing child care in Nebraska
3. Giving input on options for data and assumptions in the model
4. Reviewing and validating initial results and giving feedback to refine the final model.

Over a series of work group meetings in 2023, P5FS reviewed Nebraska licensing standards and Step Up to Quality standards, and identified the areas of these standards that impacted the cost of care. Assumptions for how standards are met, and the associated costs were reviewed with the work group and relevant data was sourced and discussed. This resulted in a 'quality frame' used to guide the development of the cost model. The main elements of the quality frame include:

- Ratio and group size
- Salary and benefits

- Qualifications
- Family engagement
- Professional development supports
- Curriculum implementation supports
- Comprehensive child health and development
- Educational materials
- Inclusion supports

Full details of the quality frame are available in the cost model technical manual.

Child Care Provider Input Sessions

In addition, to ensure the voice of child care providers was included directly, P5FS hosted a series of provider input sessions in Spring 2023. These input sessions focused on gathering information from providers on the reality of child care operations, beyond the information gathered from a review of existing data. P5FS asked participants about their barriers and challenges to providing care and asked if they had any ideas or solutions to those barriers. They were also asked questions to better understand how they define quality, how they staff their programs and what additional support is needed for children and families. Over 110 providers participated in these sessions, with 54 percent of participants representing family child care homes, and 31 counties represented.

By far the biggest challenge providers identified was finding qualified staff and the inability to pay competitive salaries and benefits. Providers also noted lengthy waitlists, especially for infant care, an increasing number of programs closing due to staffing issues, the challenge of fingerprinting taking six to eight weeks to return, and the rising costs of supplies.

“It is nearly impossible to find part-time staff to work when fast food places are paying higher wages across the street. In addition to the low pay, new teachers need to take so many trainings and wait for their fingerprints to come back so they never get the open position filled.” Center Director, Kearney

In terms of solutions, providers most commonly reported the need for higher pay and benefits to attract and retain staff, a need to streamline the fingerprinting and background check process, and expand the eligibility threshold for child care subsidies. Several providers also raised a desire for a substitute pool and for family child care providers to have access to substitutes.

“A group benefit plan that providers could access would help cut the costs for health care and I could actually have a retirement plan” Family Child Care Provider, Omaha

Providers reported the importance of staff-child relationships as a key marker of quality, with experienced, qualified staff being able to develop those strong relationships and provide a nurturing environment that denotes quality. Some noted the need to balance the desire for smaller group sizes to be able to offer this quality care with the fiscal impact of lower enrollment. Providers also often reported parental involvement as a key part of a quality program.

“Lower ratios are great for the children's experiences but so hard for the bottom line. You sacrifice quality a bit to be able to afford to keep the doors open.” Family Child Care Provider, Chadron

Providers noted the increased resources needed to support children with special needs, with many providers calling for push-in support from behavioral health/special needs experts, as well as additional general staffing.

“Behavior issues have increased dramatically over the past 5-10 years, and we need training and supports to lighten the burden on the current staff.” Center Director, Grand Island

Providers also noted the need for additional parent education to ensure best practices continue at home, and the increasing need for support for meeting a family's basic needs such as providing diapers or food.

“Many parents are struggling to survive. Families are working two to three jobs to pay for day care and juggling kids from place to place. Kids are being picked up by many different people because of work schedules. The lack of a routine outside of the center can be a drain on the kids.” Center Director, Omaha

Cost Model Functionality

The cost model can estimate the cost of care under various scenarios, and the results provide insight into the impact of different policy and programmatic decisions on the cost of care. However, the model is not intended to be a budget document or to replace a program's individual budget. By its nature, the model uses averages and defaults whereas a program budget should include actual expenses for a program.

The cost model accounts for all aspects of program operations for center-based and family child care home settings, serving children from birth to 12 years of age with full-day, full-year child care. To account for the differing business models and cost drivers, specific cost model settings were built for center and family child care (FCC) settings. Details of the models include:

- Full-day is defined as 10 hours per day.

- Full-year is 5 days per week, 52 weeks per year.
- Program operations meet all Nebraska State licensing standards for [centers](#), [FCCH I](#) and [FCCH II](#).
- Licensing standards set the definitions of the ages of children in each category.
- Users can manipulate additional program enhancement variables.

The models' output includes estimates of total revenues and expenses at the provider level and individual child level to fully illuminate variations in expenses/revenues for different ages of children. Expense data in the models is designed to incorporate the following factors that impact the cost of providing care:

- Health, safety, and licensing requirements, including required staff qualifications and trainings;
- Staffing patterns to meet licensing and increase quality, and staffing outside of child services for complete program operations;
- Staff and FCC provider compensation (salary and benefits);
- Enhanced quality variables, including curriculum and supplies, staff time for family engagement, planning for teaching and learning, and inclusion supports;
- Enrollment levels;
- Ratios and group size;
- Facility size.

Nonpersonnel expense data in the model is based on the federal [Provider Cost of Quality Calculator](#). This calculator includes estimates of all primary nonpersonnel expenses, such as educational and office supplies and occupancy costs, with cost-of-living variations for each state. Personnel data in the model is based on the Bureau of Labor Statistics (or [BLS](#)) Occupational Employment and Wage Statistics for Nebraska, adjusted for a \$15/hour minimum wage, the Massachusetts Institute of Technology (or [MIT](#)) Living Wage Calculator, or statewide kindergarten parity salary values. This data provides three default salary levels in the model, as detailed in Table 1 below:

Table 1: Default salary data included in Nebraska child care cost model¹

	Bureau of Labor Statistics	Living Wage			Kindergarten Parity
	Adjusted for \$15/hour floor	Statewide	Urban	Rural	Prorated for 12 months
Director	\$66,322	\$96,727	\$124,423	\$92,862	\$116,743
Asst Director	\$53,058	\$79,939	\$102,829	\$76,770	\$93,395
Lead Teacher	\$47,825	\$65,524	\$84,286	\$62,926	\$84,184
Asst Teacher	\$31,200	\$50,403	\$64,835	\$48,405	\$54,920
FCCH Owner/ Provider	\$65,760	\$90,096	\$115,893	\$86,523	\$115,753
FCCH Asst Teacher	\$31,200	\$50,403	\$64,835	\$48,405	\$54,920

Source: P5FS analysis of data from (A) MIT Living Wage Calculator, available at <https://livingwage.mit.edu/states/31/locations> (last accessed July 2023); (B) U.S. Department of Labor, Bureau of Labor Statistics, May 2022 Occupational Employment and Wage Statistics Nebraska, available at: https://www.bls.gov/oes/current/oes_ne.htm (last accessed July 2023)

Cost Model Results

There is no single answer to how much high-quality child care costs. The answer depends on several factors, including program setting and geographic location, program size and age of child, and compensation levels. However, to illustrate the capabilities of the child care cost model, and to better understand the sufficiency, or not, of current public funding rates, P5FS developed several sample scenarios. The results of these scenarios are presented below.

¹ To estimate the living wage for urban and rural, the study team collected data from the MIT Living Wage calculator for the four counties identified as urban – Dakota, Douglas, Lancaster, and Sarpy, with the remaining counties used for the rural region. Because living wage varies based on family composition, the study team developed a composite living wage based on the typical family size of early childhood educators in another state where this data was available (it was not available for Nebraska). This allowed for the calculation of a living wage for each region, adjusted for family composition, which is used in the child care center model for the lowest paid members of the workforce, namely the assistant teacher and aide/floater. This is also used for the assistant teacher in the home-based model. Salaries for other staff positions are computed based on this living wage, increased to account for the additional job responsibilities. This increase is based on data collection in similar studies P5FS has conducted in several other states to understand the spread between pay of the different members of the early childhood workforce. For family child care provider/owners, the same hourly rate as is used for a lead teacher in a center setting is used, but this hourly wage is multiplied by 2,860 hours to calculate an annual salary based on a 55-hour work week for the provider/owner.

Child Care Center Scenarios

Two sample scenarios were developed for child care centers, with variations in the salary selections. Scenario 1 uses current salaries, based on the BLS data, adjusted for a \$15/hour minimum wage. Scenario 2 uses the living wage salaries, based on the MIT Living Wage calculator. These sample scenarios have capacity for 78 children across four classrooms, serving infants, toddlers, preschoolers, and school-age children. Table 2 summarizes the monthly cost per child under these two scenarios, with results displayed statewide and for urban and rural counties.

Table 2: Sample Scenarios, Child Care Center, Monthly cost per child

	Scenario 1: BLS Salaries			Scenario 2: MIT Living Wage Salaries		
	Urban	Rural	Statewide	Urban	Rural	Statewide
Infant	\$1,757	\$1,736	\$1,745	\$2,967	\$2,313	\$2,384
Toddler/2-year-old	\$1,491	\$1,470	\$1,479	\$2,459	\$1,933	\$1,989
Preschool (3–5-year-old)	\$1,095	\$1,078	\$1,086	\$1,741	\$1,387	\$1,421
School Age	\$506	\$497	\$501	\$772	\$622	\$636

*Note: School age cost is based on an annual amount, evenly spread across the year, and accounts for children attending full-time during summer and school breaks, and part-day during the school year.

As shown, the cost of care is highest for the youngest children, with infant care costing around 61 percent more than preschool care under Scenario 1, and 68 percent more under Scenario 2. This is a result of the smaller group size and ratios necessary when caring for infants and toddlers. As shown, the cost of care does not vary significantly across regions when using BLS data because the only variation is in nonpersonnel expenses. Differences across the regions are more pronounced in Scenario 2 because the living wage data source has specific data for each county, whereas BLS data in the cost model is only statewide. Comparing statewide results between these two scenarios illustrates that paying salaries based on a living wage increases the cost of care by around \$600 per month for an infant, or a 37 percent increase.

Family Child Care Home Scenarios

Similar to the center-based sample scenarios, two sample scenarios were developed for family child care homes, with variations in the salary selections. These scenarios were replicated for FCCH I and FCCH II. Scenarios 3 and 5 use current salaries, based on BLS data, adjusted for a \$15/hour minimum wage. Scenarios 4 and 6 use the living wage salaries, based on the MIT Living Wage calculator.

This FCCH I sample scenario has capacity for 10 children, including eight infants through preschoolers and two school-age children. The FCCH II sample scenario has a capacity of 12 children, including 10 infants through preschoolers and two school-age children. Table 3 summarizes the monthly cost per child under these two scenarios for FCCH I and Table 4

presents the results for FCCH II. Results are displayed statewide as well as for urban and rural counties.

Table 3: Sample Scenarios, FCCH I, Monthly cost per child

	Scenario 3: BLS Salaries			Scenario 4: MIT Living Wage Salaries		
	Urban	Rural	Statewide	Urban	Rural	Statewide
Infant/Toddler/Preschool	\$963	\$955	\$959	\$1,541	\$1,197	\$1,242
School Age*	\$526	\$521	\$523	\$841	\$653	\$677

*Note: School age cost is based on an annual amount, evenly spread across the year, and accounts for children attending full-time during summer and school breaks, and part-day during the school year.

Table 4: Sample Scenarios, FCCH II, Monthly cost per child

	Scenario 5: BLS Salaries			Scenario 6: MIT Living Wage Salaries		
	Urban	Rural	Statewide	Urban	Rural	Statewide
Infant/Toddler/Preschool	\$1,136	\$1,129	\$1,132	\$1,934	\$1,493	\$1,549
School Age*	\$631	\$627	\$629	\$1,074	\$830	\$861

*Note: School age cost is based on an annual amount, evenly spread across the year, and accounts for children attending full-time during summer and school breaks, and part-day during the school year.

As shown, the cost of care does not vary significantly across regions when using BLS data because the only variation is in nonpersonnel expenses. The living wage scenarios show a greater variation in the cost of care in urban counties compared to rural counties, due to the higher cost of living reflected in the living wage in those counties. The cost of care in urban counties is around 39 percent more than in rural counties, or around \$340 per child per month in FCCH I and \$440 per child per month in FCCH II.

Sufficiency of public funds to cover the cost of care

Beyond understanding the true cost of care, a key part of the fiscal analysis includes analyzing the potential revenues available to providers to cover this cost. In addition to tuition paid by families, providers may also be able to access the Child Care Subsidy Program. This program helps low-income working families pay for child care, with the Nebraska Department of Health and Human Services setting the reimbursement rates providers can receive when serving eligible children. These reimbursement rates are set based on the market rate survey, which gathers data on private pay, or tuition rates from providers across the state. The cost model developed for Nebraska includes the most recent subsidy rates based on the 2023 [market rate survey](#). In addition, programs participating in Step Up to Quality may receive increased reimbursement rates based on their Step level. This rate is also incorporated into the cost model.

Using the results of the sample scenarios presented in this brief, it is possible to compare the estimated cost of care to the current subsidy reimbursement rates, illustrating the

extent to which rates are sufficient to cover the cost of care. Figures 1-3 present the results of this analysis using the scenarios with BLS salaries and comparing the cost of care to base subsidy rates. Figures 4-6 present the same comparison but with the results of the cost of care analysis using MIT Living Wage compared to the highest subsidy rate available to providers, based on a program at Step 5 of Step Up to Quality (SUTQ).

Figure 1: Gap between Cost of Care and Child Care Subsidy Rate – Child Care Center, BLS salaries, Base subsidy rate

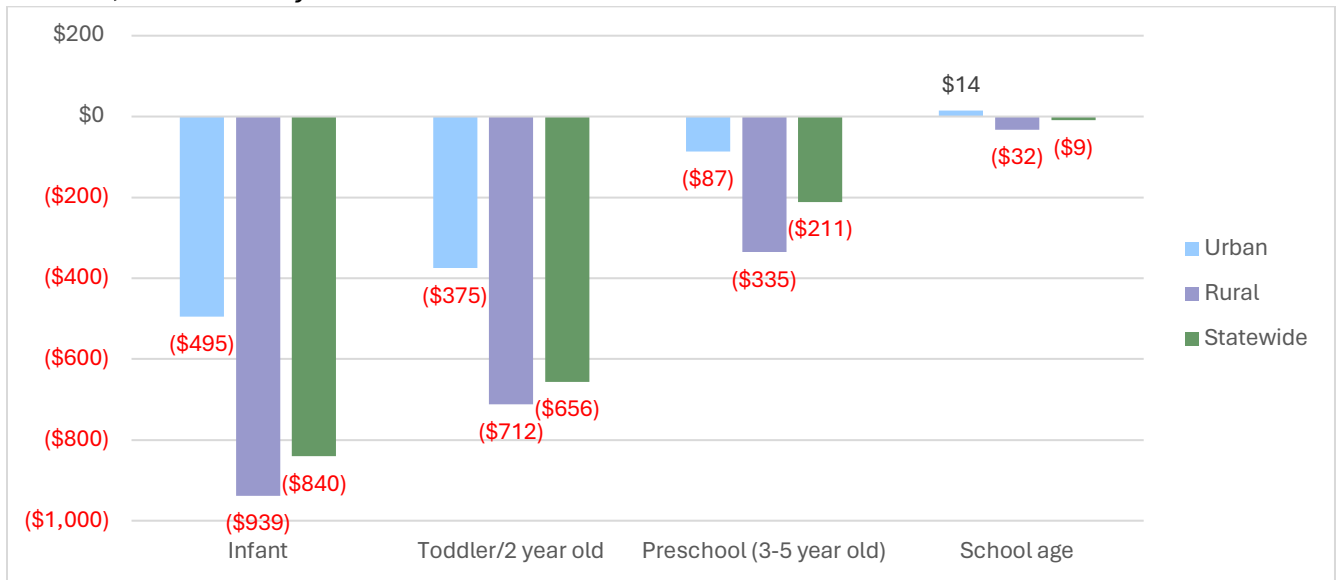


Figure 2: Gap between Cost of Care and Child Care Subsidy Rate – FCCH I, BLS salaries, Base subsidy rate

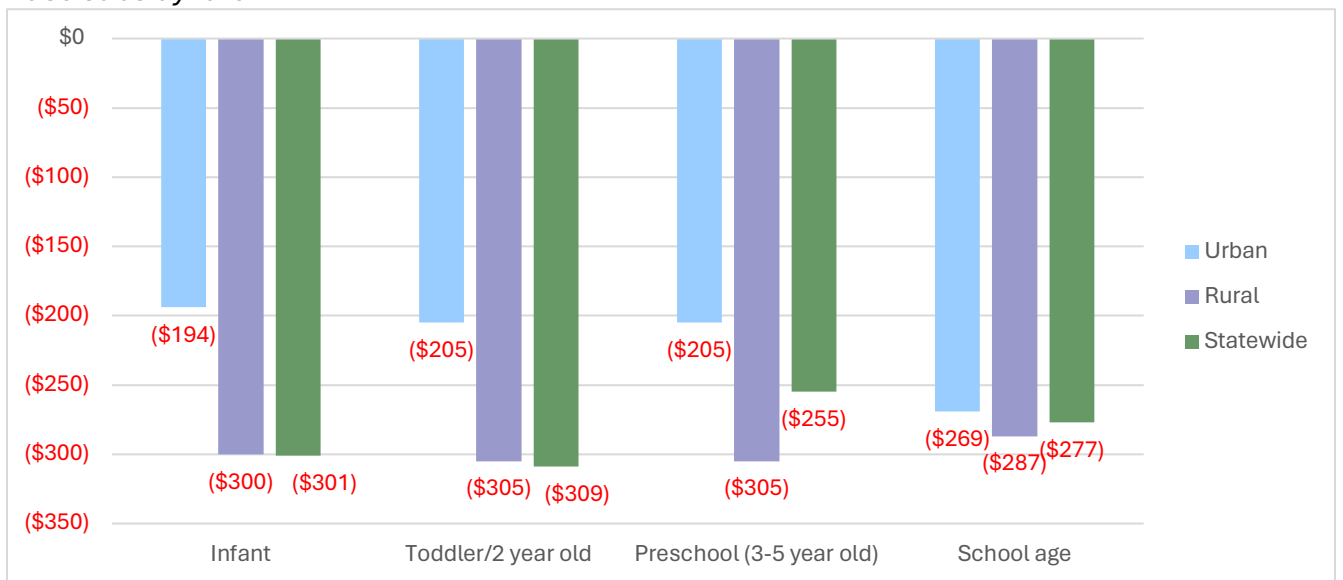


Figure 3: Gap between Cost of Care and Child Care Subsidy Rate – FCCH II, BLS salaries, Base subsidy rate

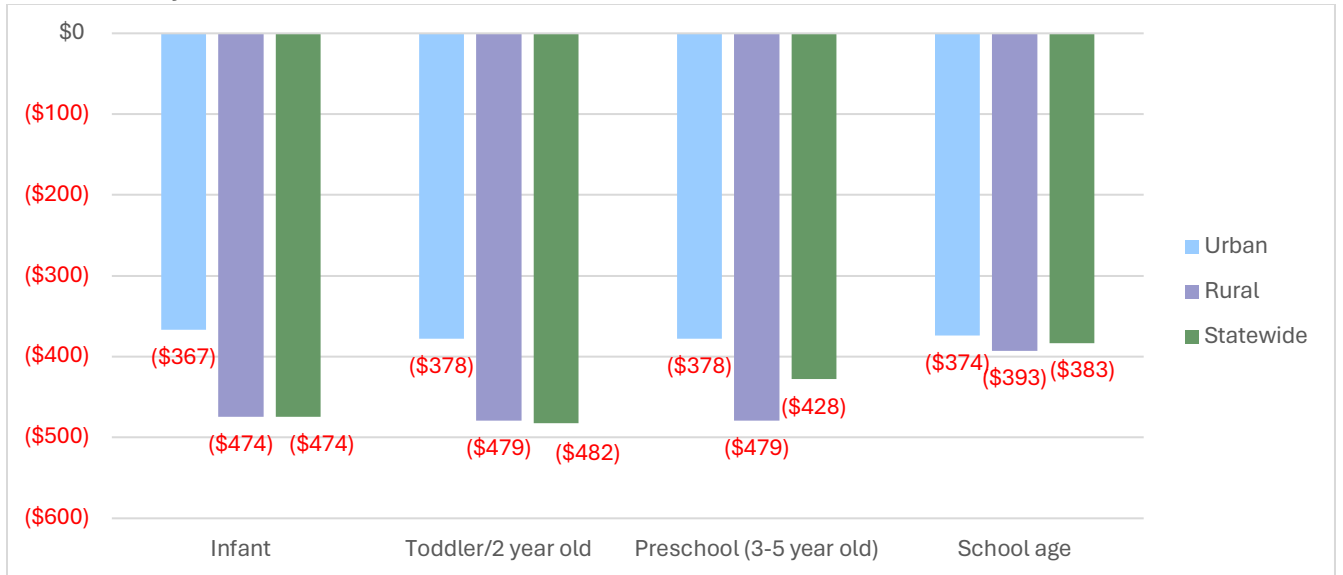


Figure 4: Gap between Cost of Care and Child Care Subsidy Rate – Child Care Center, MIT Living Wage salaries, SUTQ Step 5 subsidy rate

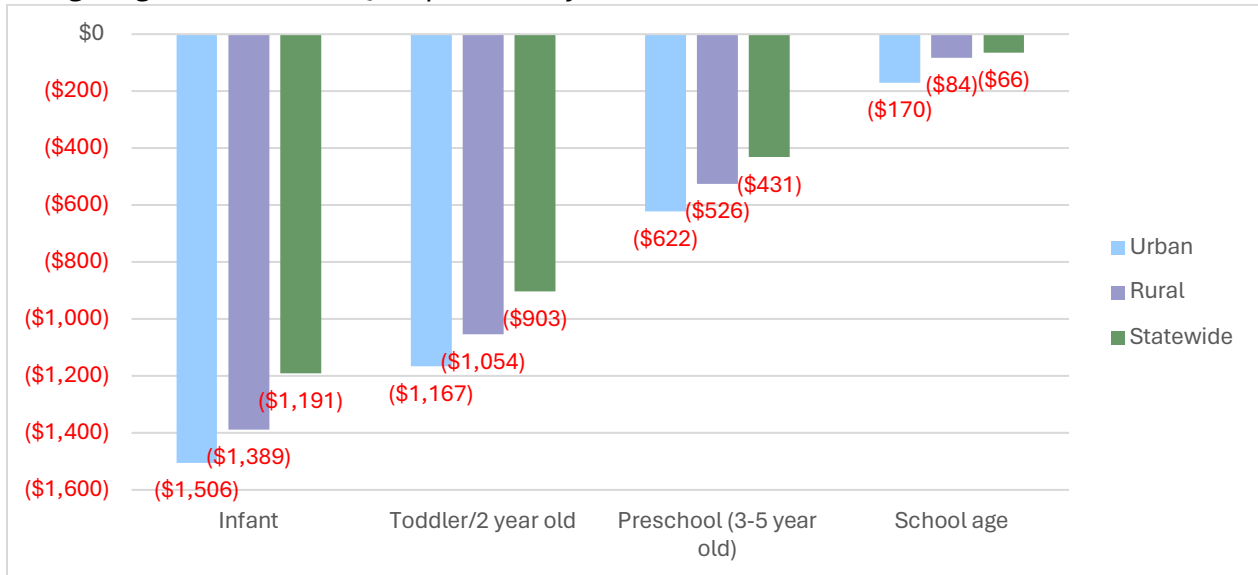


Figure 5: Gap between Cost of Care and Child Care Subsidy Rate – FCCH I, MIT Living Wage salaries, SUTQ Step 5 subsidy rate

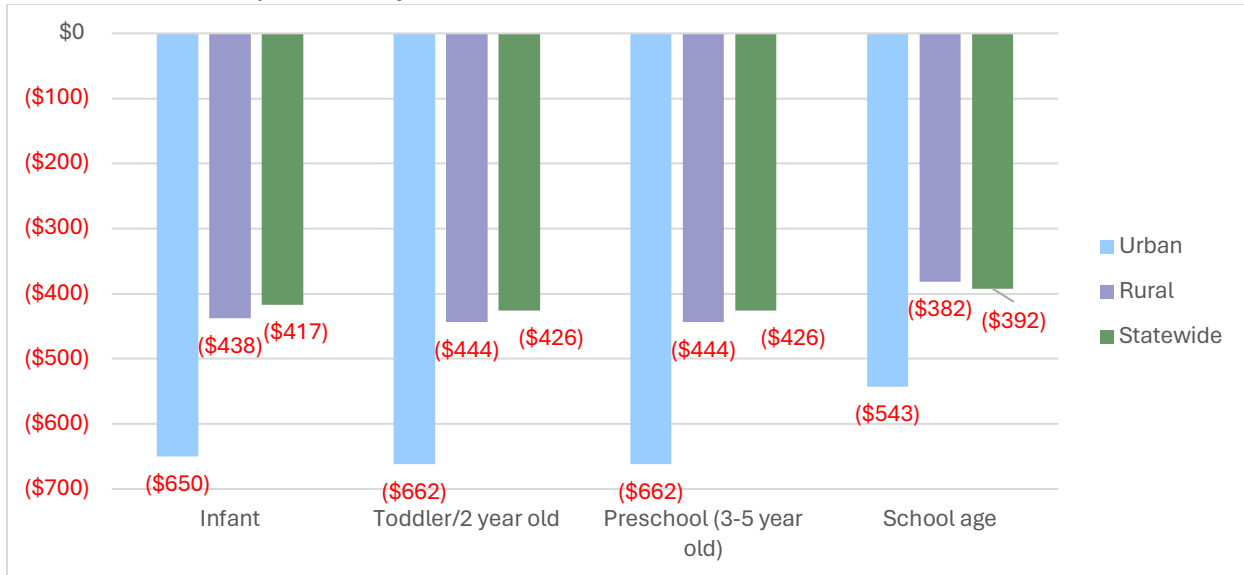
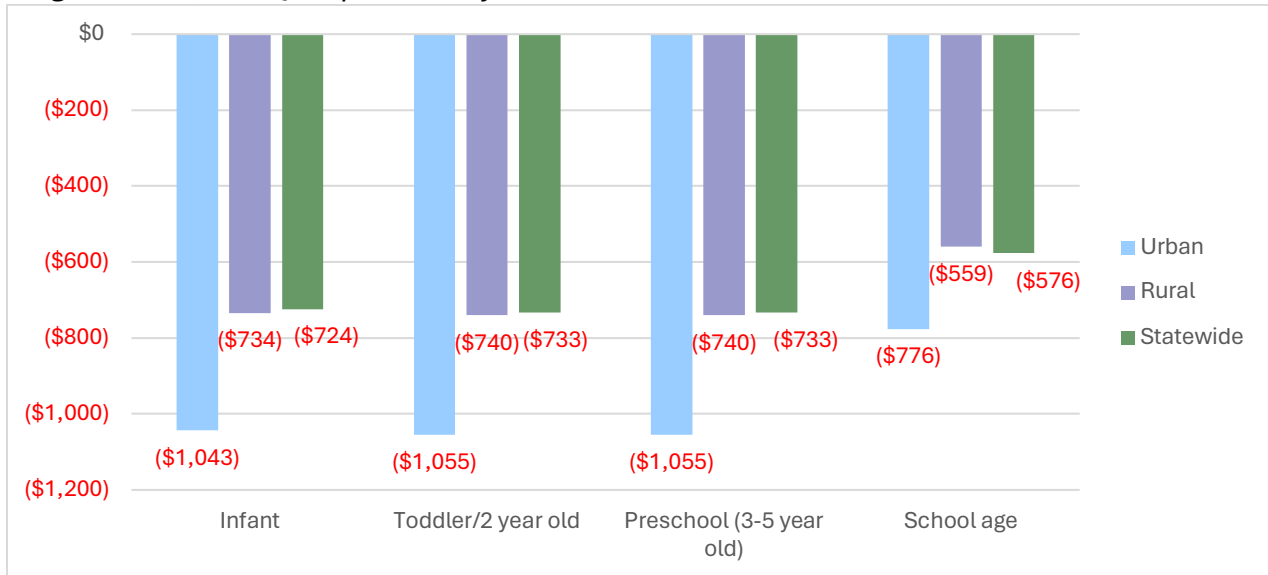


Figure 6: Gap between Cost of Care and Child Care Subsidy Rate – FCCH II, MIT Living Wage salaries, SUTQ Step 5 subsidy rate



As shown, across this data the cost of care is more than the current subsidy rate in almost all cases. The gap between the cost of care and child care subsidy reimbursement rate is greatest for the youngest children and larger in rural areas compared to urban counties. This data illustrates how the process of setting subsidy rates based on market rates [perpetuates](#) the inequities of the market. Providers must set their tuition rates at a level that families in their community can afford, otherwise they will not be able to maintain enrollment. However, because families are limited in what they can afford, the tuition rates do not cover the cost of care. This gap is particularly pronounced for infants and toddlers,

for whom the cost of care is highest, but at a time when families arguably have the most limited disposable income. Similarly, low-income families, who [already spend](#) a disproportionately high percentage of their income on child care, are even more constrained in what they can afford to pay in tuition. Providers serving these families must set their rates low enough for these families to afford, but then in turn receive a low reimbursement rate from the Child Care Subsidy Program.

Using the fiscal analysis to inform change

The results of the fiscal analysis provide data on the reality of how much it costs to provide safe and quality child care. These costs exceed both what families can afford and what current public funding rates can cover, leaving child care providers often unable to recruit and retain teachers, scrambling to meet the needs of families with the scarce resources available to them, and leaving educators overworked and underpaid.

Data from the fiscal analysis and the cost model tool can be used to help identify solutions to address this broken system and to support policymakers, advocates, and program leaders in making changes to improve the system. This work can happen at multiple levels:

- At the *policy* level, the cost model can be used to inform child care subsidy rates, ensuring they better reflect the true cost of care and the variations in that cost based on different program characteristics, geographic location, and age of child. The model can also be used to understand the fiscal impact on programs of different regulations or requirements, such as those related to Step Up To Quality, to ensure that incentives are sufficient to cover the costs of operating at higher quality.
- At the *provider* level, the cost model can be used to inform program operations, helping programs model out the impact of changes to their program, such as opening a new classroom, increasing enrollment, changing the ages of children served, increasing salaries and benefits, or participating in Step Up to Quality. While the model does not replace a budget, it can support planning to ensure that the fiscal impact of program changes is part of decision making.
- At the *community* level, the model and fiscal analysis can help illustrate the need for significant increases in public funding and can quantify the amount of funding that is needed to meet state and community goals, such as those around compensation. The model can also support advocacy around who should be eligible for assistance paying for child care - calculating the true cost of care highlights who can and cannot afford this cost, and therefore who needs assistance.

This brief has provided results from the cost model and fiscal analysis based on a point-in-time and using hypothetical scenarios to illustrate the current reality. However, as previously noted, there is no single answer to the question of how much quality child care costs, so different scenarios should be run based on the decisions being made or informed based on the model results. In addition, the cost model is a dynamic tool that can be updated so that it continues to capture the actual costs incurred by providers. For example,

if state licensing regulations or quality standards change, the model should be refreshed. Also, the default data in the model should be updated annually, specifically the compensation data, to ensure it keeps pace with any increases in the labor market. Ultimately, the Nebraska Child Care Cost Model is a powerful tool that can provide transparency into the finances of child care operations and can support data-informed policymaking so that all Nebraska children, families, and providers can thrive.

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Prenatal to Five Fiscal Strategies

Prenatal to Five Fiscal Strategies is a national initiative, founded by Jeanna Capito and Simon Workman, that seeks to address the broken fiscal and governance structures within the prenatal to five system with a comprehensive, cross-agency, cross-service approach. The initiative is founded on a set of shared principles that center on the needs of children, families, providers, and the workforce. This approach fundamentally rethinks the current system to better tackle issues of equity in funding and access.

For more information about Prenatal to Five Fiscal Strategies, please visit:

www.prenatal5fiscal.org